

PROPOSED MODIFICATION TO THE DISTRICT OF COLUMBIA CONSOLIDATED PLAN, FY 2004 ACTION PLAN

The Department of Housing & Community Development (DHCD) and the Deputy Mayor for Planning & Economic Development (DMPED) propose to modify the Fiscal Year 2004 Action Plan ("Action Plan") of the Consolidated Plan for the District of Columbia ("Consolidated Plan"). The purpose of the Proposed Modification is to offer more specific and concrete details regarding the draft Section 108 Loan Guarantee Application that the District of Columbia government plans to submit to the U.S. Department of Housing and Urban Development (HUD). The District plans to borrow up to \$56 million under the HUD Section 108 Loan Guarantee Program. The purpose of the borrowing is to assist in funding a large economic development project, to be known as the "DC USA Project". The District proposes to repay the loan from new tax revenues that DC USA will generate under the establishment of a new Tax Increment Financing (TIF) District. The District has pledged future federal Community Development Block Grant (CDBG) funds as security on the Section 108 Loan Guarantee. Hence if there are insufficient new tax revenues under the TIF to pay the loan debt service, the District will make up the shortfall with CDBG funds.

This Proposed Modification is organized as follows:

1. Legal Authority
2. Project Description
3. Section 108 Loan Guarantee Program Description
4. Uses of Section 108 Loan Guarantee Program Proceeds
5. Financing Plan
6. Citizen Participation Plan
7. Congruence with Action Plan, National Objectives and Eligibility Standards

1. Legal Authority

The District, acting by and through DHCD, the designated District recipient of CDBG Funds for housing and community development activities, as prescribed in D.C. Official Code § 6-1002 (2001 ed.), Reorganization Plan No. 3 for the District of Columbia, found at 21 DCR 2793; Effective July 3, 1975, effective, and Title 1 of the Housing and Community Development Act of 1974, as amended, proposes a modification to the Action Plan and Consolidated Plan.

2. Project Description

The District wants to modify the Action Plan to reflect the specifics of the DC USA Project in the Columbia Heights neighborhood. DHCD and DMPED will be seeking a Section 108 loan guarantee to finance a portion of the DC USA project. The District proposes the modification of the Action Plan to further elaborate on the District's expressed intent to use Section 108 to spur large economic development projects:

Section 108 Loan Guarantee Program: DHCD, in conjunction with the Office of the Deputy Mayor for Planning and Economic Development, is intending to use the HUD Section 108 Loan Guarantee Program to finance several large economic development projects, currently in the planning and implementation stages.¹

The same Action Plan also addresses the administration of such a program:

Section 108 Loan Guarantee Program: Provides a lower-cost, long-term financing option for CDBG eligible projects by pledging future Block Grant entitlements. DHCD and Office of the Deputy Mayor for Planning and Economic Development will coordinate the administration of such Section 108 Loan Guarantees, if this program is utilized in any given year.²³

The DC USA Project (the "Project"), a major retail shopping center, will trigger new economic vitality to the Columbia Heights neighborhood. The Project includes three components: (i) a multi-level retail and entertainment complex (the "Complex"), (ii) a underground three-story garage/parking facility (the "Parking Facility"), and (iii) a neighborhood development fund (the "Neighborhood Economic Development Fund") that will finance both public space improvements and targeted assistance to neighborhood businesses. The Complex and Parking Facility is to be located on a 4.89 acre site at the intersection of 14th and Irving Streets, NW, in a Priority Development Area of the District. The Neighborhood Economic Development Fund investments will be clustered most intensively within a half mile radius (5 minute walk) of 14th and Irving Streets, the location of both the Columbia Heights Metro station and the Complex and Parking Facility. The District may use the Neighborhood Economic Development Fund dollars anywhere in the Columbia Heights neighborhood. The neighborhood's boundaries are Spring Road to the north, 11th Street to the East, Euclid Street to the south, and 16th Street to the west.

A Target store will be the principal anchor and several other big box retailers are expected to lease space in the Complex of the Project. This Target store will be the first Target store in the District of Columbia. The Project will be developed to cater to an under-served retail community, as documented by independent marketing studies. There has been considerable interest from other national retailers such as Whole Foods, Bed Bath & Beyond, Best Buy, Marshall's, Borders' Books and Music, World Market and Pier 1 Imports. Moreover, Starbucks has expressed interest in a ground floor corner location for its first Columbia Heights store. Finally, the Project will have restaurants, smaller retail spaces and three levels of below-grade parking to accommodate 1,364 cars.

¹ Consolidated Plan for the District of Columbia, Fiscal Year 2004 Action Plan, October 1, 2003 – September 30, 2004, pg. 69.

² Consolidated Plan for the District of Columbia, Fiscal Year 2004 Action Plan, October 1, 2003 – September 30, 2004, pg. 50.

Grant To Developer

The District will grant \$43.5 million in loan proceeds to the Developer to construct a Parking Facility and for other costs. The Developer, the Grantee, is DC USA Operating Co. LLC, a New York limited liability company. The District will maintain a controlling interest in the Parking Facility.

Role of the National Capital Revitalization Corporation (NCRC)

The National Capital Revitalization Corporation (NCRC) is an instrumentality of the District of Columbia, statutorily established to assist in the redevelopment of underutilized parcels of land in the District. NCRC assumed responsibility of the District's Redevelopment Land Agency (RLA) and its assets on January 15, 2002, and renamed it the RLA Revitalization Corporation (RLARC) to manage and dispose of the former RLA assets. The current owner of the Complex and Parking Facility site is the RLARC, that will dispose of the site under a Land Disposition Agreement (LDA), between RLARC and the Developer, dated January 17, 2003.

Upon completion of the initial shell construction of the Parking Facility and the Complex, the Parking Facility and the Complex will be made the subject of a commercial condominium regime with three commercial units—the Target Unit, the Retail Unit and the Parking Facility. The Target Unit will be built and sold upon completion to Target. Currently, there is not a single Target store anywhere in Washington, D.C. The Developer will own the remaining Retail Unit. The District will maintain a controlling interest in the parking facility. The total development costs are estimated at \$146 million for the Complex and Parking Facility and \$158 million for the whole Project (See attached Section 108 Application Exhibit A for estimated Development Budget, including Sources and Uses and Construction Budget, as of November 7, 2003. Also, see attached Section 108 Application Exhibit K for total Project Development Costs, including Neighborhood Economic Development Fund costs and Section 108 Loan Guarantee financing costs).

The LDA between RLARC and the Developer

RLARC, a subsidiary of NCRC, and the Developer executed a Land Disposition and Development Agreement (“LDA”) for Parcel 27 on January 17, 2003. The LDA defines the terms of the disposition of Parcel 27 to the Developer and the development of the DC USA project on the site after closing. Because the disposition and development of Parcel 27 consists of a transfer and improvement of publicly owned land to and by a private developer, the LDA requires the Developer to provide certain benefits to the public, particularly to District residents. The Developer is required to give priority to lower income residents in the District of Columbia for training and employment opportunities within the DC USA Project. The LDA spells out commitments of the Developer to the community and the District. Those commitments are described in greater detail in the next section. The District will hold the Developer accountable for these commitments

through the LDA, a legally binding development agreement, and subsequent Council resolution(s) approving this Proposed Modification and Project.

All requirements regarding the hiring of District residents and LSDBE contracting targets are covenants in the LDA that run with the land and extend to the Developer and all successive owners of the project. With regard to the Target Unit in particular, the LDA places on the Developer and its successors a ten year obligation running with the land to use the space as a Target store or other “big box” retail use, unless such use is commercially unreasonable. Finally, the LDA requires the Developer to provide extensive development submissions to the RLARC throughout the acquisition and development process based on a rigorous schedule, including design/construction drawings, financial pro formas, leasing updates, financing commitments and evidence of equity funding.

Benefits for District Residents

The Project will have a significant impact on the neighborhood and the local economy, introducing a broad spectrum of new jobs for District residents. Approximately 700 temporary jobs will be created during the estimated two-year construction period. Approximately 1,650 permanent jobs will be created once the complex has opened. Over 1500 (94%) of those jobs are non-management jobs.

The Developer has agreed to ensure that the community benefits from the Project in three main ways: subsidized rental space, a commitment to hire District residents, and a commitment to contract with small, local, or disadvantaged businesses (LSDBE). The Developer will enter into a First Source hiring agreement with the District. The Development Corporation of Columbia Heights (DCCH), a neighborhood local community development corporation, is under contract with the Developer to match District residents to job opportunities. The D.C. Department of Employment Services (DOES), the D.C. Office on Latino Affairs (OLA) and numerous community-based organizations will also be instrumental in ensuring that District residents get and keep jobs at DC USA. In addition, the Developer has committed to signing a Memorandum of Understanding (MOU) with the Office of Local Business Development (OLBD) to ensure that LSDBEs participate in 35% or more of contracting opportunities. OLBD, OLA and community-based organizations will work together to ensure that LSDBEs participate in the Project. Finally, the Developer will offer 15,000 square feet of retail space at 67% of the market rents to local entrepreneurs.

Summarizing, the Developer:

- Has set a goal of 35% of contracts for minority and/or local firms, and 35% of the subcontracting dollar percentage for Minority Business Enterprises.
- Shall use reasonable efforts to achieve a goal of 75% employment for District residents and minorities.
- Has set aside 15,000 square feet of retail space in the Project as a special business opportunity with a discounted rental rate to assist local and minority-owned entrepreneurs.

Importantly, the Developer's commitment to jobs for District residents and contracting opportunities for LSDBEs will extend to all tenants who lease space in the center. For example, if Whole Foods Market signs a lease in DC USA, Whole Foods will be subject to the same First Source and Local, Small Disadvantaged Business Enterprises contracting requirements as those set forth in the First Source Agreement and MOU between the District and the Developer. As a condition precedent to Target's purchase of its retail store-unit, Target shall execute a First Source Agreement and MOU with the District.

The Project will be the catalyst for economic development throughout Columbia Heights. Part of the proposed Section 108 Loan Guarantee proceeds will be used to establish and operate a Neighborhood Economic Development Fund (the "Fund"). This Fund will enhance neighborhood investment by funding certain infrastructure and providing targeted assistance to small businesses. Infrastructure improvements include streetscape enhancements, small retail façade improvements, and other similar costs. Other private and public dollars will support this Fund. Together, these investments will help to create a multi-block retail environment and to mitigate displacement of local businesses in the Project area.

The Fund will be administered by the Office of the Deputy Mayor for Planning & Economic Development in conjunction with DHCD. Funds will be allocated and disbursed according to an approved program structure. Within the last two years, approximately 450 community residents and District planning officials have met to discuss the purposes and activities supported by the Fund. As part of the District's outreach efforts to apprise the residents of the Fund and its uses, District planning representatives co-facilitated and attended more than thirty-two meetings, totaling about 90 hours of meeting time.

3. Section 108 Program Description

The Section 108 Loan Guarantee Program offers local jurisdictions the opportunity to lower the cost of long-term financing on eligible and carefully screened/selected economic development projects. Under the Section 108 Loan Guarantee Program, a local jurisdiction may request a HUD loan guarantee of up to five times the jurisdiction's CDBG allocation, less any outstanding borrowings. Because of the Federal loan guarantee, interest rates, affecting the amounts borrowed, are reasonably low. All jurisdictions that use the Section 108 Loan Guarantee Program to fund community projects are required to pledge their present and future fiscal year CDBG grants as security for the loan guarantee amounts. Some jurisdictions elect to repay the Section 108 Loan Guarantee amounts using its allocated CDBG funds. In some instances, income derived from the funded activities is used to repay the Section 108 Loan Guarantee amount, therefore reducing the risk of the jurisdiction's CDBG funds.

4. Uses of Section 108 Loan Proceeds

The Office of the Deputy Mayor for Planning & Economic Development in conjunction with the Department of Housing and Community Development will supervise and administer the use and disbursement of Section 108 Loan Guarantee Program proceeds. The Section 108 loan proceeds will be used to specifically fund three aspects of the Project: (i) construction costs for the Project Parking Facility and other related construction costs of the Complex, (ii) the Neighborhood Economic Development Fund, and (iii) applicable Section 108 Loan Guarantee Program financing costs.

The following chart summarizes the uses of the proceeds of the Section 108 loan:

Three uses of the Section 108 loan proceeds		
1. Project Fund	Project Fund: Garage Construction	\$ 42,235,129
	Project Fund: Other Retail Construction	\$ 1,256,850
2. Neighborhood Economic Development Fund	Infrastructure Improvements	\$ 4,800,000
	Façade and Retail Upgrade Fund	\$ 1,200,000
3. Financing Costs	Capitalized Interest	\$ 1,410,033
	Debt Service Reserve Fund	\$ 4,320,319
	Costs of Origination	\$ 565,500
	Contingencies	\$ 212,169
Total Loan Proceeds		\$ 56,000,000

Each of the above uses is discussed below:

Project Fund. The District shall negotiate with the Developer to finance and construct a three-level underground Parking Facility. The District will enter into a funding agreement with the Developer, evidenced by a term sheet, whereby the District funds the construction of the underground Parking Facility. The Developer will construct the garage. The District will maintain a controlling interest in the Parking Facility. The District's goal is to control the operations of the parking facility in order to appropriately balance retail and community uses and also to assure that sufficient parking exists to help the Project become a successful community retail center. The financing plan will be discussed in the next section.

Because the Retail and Target Units of the Project will be built above the underground parking facility/garage, the District and the Developer must jointly finance and develop the Parking Facility and the Complex. The District will outsource the Parking Facility operations to a thirdparty professional parking Management Company. While the District desires to control the garage operations, the District does not want to subsidize the Parking Facility and Complex more than is absolutely necessary. In this spirit, the District wants to pass along any economic benefits to make this an economically feasible project.

The District expects to finance the construction of the Parking Facility with the Section 108 Loan Guarantee. The District may also subsidize a small portion of other construction costs of the Complex to make the Project economically viable. Currently, the District expects that \$1.25 million of the loan proceeds may be used for other construction costs. The allocation of the Project Fund between the Parking Facility and other construction costs will be a subject of negotiation between the Developer and the District. The District's goal in these negotiations will be to minimize public subsidy for the Project to that which is absolutely necessary.

The District is in ongoing negotiations with the developer about a proposed term sheet. The District will share proposed terms with the community as soon as possible, and no later than at the public hearing on January 10, 2004. The final terms negotiated between the District and the Developer will be made available to the public with all other related documents no later than when any legislative actions are submitted for approval by the Council of the District of Columbia.

Neighborhood Economic Development Fund. As noted above, the District will use \$6.0 million of the Section 108 Loan Guarantee funds to create a Neighborhood Economic Development Fund (the "Fund"). This Fund will assist in the financing of infrastructure improvements in Columbia Heights and will minimize displacement of businesses in the vicinity of the Project.

The infrastructure improvements, \$4.8 million of which will be funded with Section 108 Loan Guarantee proceeds, are designed to create an inspiring public realm. Improvements are to include a public plaza, improved curbs and sidewalks, and 14th Street improvements. These investments will help to catalyze further economic development in the Columbia Heights commercial corridor. The construction costs for these infrastructure investments have been developed in consultation with the DC Office of Planning, the D.C. Department of Transportation and the D.C. Department of Public Works. They are based upon relevant construction costs for similar public right-of-way projects. A draft schedule of proposed infrastructure expenditures is attached (see Exhibit K). For more information on the improvements, copies of the *Columbia Heights Public Realm Framework* are available online at <http://planning.dc.gov/main.shtm>.

In addition to infrastructure improvements, the Fund will be used to minimize displacement of businesses in the vicinity of the Project, through a local retail enhancement program. The Fund will be administered by DMPED in conjunction with DHCD.

Financing Costs. Finally, the District will use a portion of the Section 108 Loan Guarantee funds to: (i) capitalize interest payments, (ii) set aside a debt service reserve fund, and (iii) cover Section 108 Loan Guarantee origination costs and fees. The District intends to charge a small administrative fee on the amount of tax increment finance used to service the Section 108 Loan Guarantee repayments. The Office of the Chief Financial Officer of the District will likely receive this administrative fee.

5. Financing Plan

The financing plan will be: (i) the District will borrow \$56 million by using a Section 108 Loan Guarantee, and (ii) the District will repay the loan through a portion of the new taxes that the Project will generate under the TIF. The Section 108 Loan Guarantee, in addition to the pledge of the future District CDBG funds, will be further secured by the interests in the Parking Facility.

Repayment

The primary source of repayment is the incremental tax revenue (also known as the Tax Increment Finance – TIF) generated by the new economic activity that results from this development. An independent analysis by ARD/Government Finance Group estimated that the incremental tax revenue available to service the borrowing is \$6,560,955 annually. The District is projected to repay \$5,262,437 annually for the Section 108 Loan Guarantee. The resulting debt service coverage (money available to service the debt/annual debt obligation) is a strong 1.25x – meaning the expected available taxes to pay the loan total 125% of the necessary loan payments in a given year. As a comparison, the successful Section 108 Loan Guarantee that the District used to construct the Good Hope Marketplace in Anacostia had a projected debt coverage ratio of 1.05.

The District expects to create a TIF District by an appropriate resolution of the Council, under the statutory authority of the District. This resolution will permit the District to allocate all incremental sales taxes and all available real property taxes to the repayment of the Section 108 Loan Guarantee. The District anticipates that Council will consider the establishment of the TIF District in conjunction with the proposed Section 108 Loan Guarantee application.

Risk Management

The primary risk to this repayment source is if insufficient economic activity is generated from the Project.

The first risk is if the Developer only partially completes the Project or there is a delay in opening and operating the retail center. The risk is not great because the Developer has many strong economic incentives to complete construction in a timely manner. Also, the District is structuring the repayment of the Section 108 Loan Guarantee funds such that even a one-year delay in construction would not put repayment at risk. In addition, the District would insist that the Grant Agreement between the District and the Developer include a completion guarantee and a performance bond.

Once the Project is completed, if the new retail stores do not generate sufficient sales, and therefore tax revenues available to service the debt, the District's ability to pay its obligation could be jeopardized. However, based on two independent retail analyses conducted by Social Compact and Robert Charles Lesser & Co., it is expected that more than sufficient retail activity would be generated as a result of this Project. This retail

analysis confirmed a dramatic unmet retail demand in Columbia Heights. Robert Charles Lesser & Co forecasts that existing untapped retail demand could support a shopping center of 1.5 million square feet on the proposed Project site – three times the size of the proposed retail space of the Project. When one updates the ARD/Government Finance Group’s original tax increment analysis with retail demand figures from the third-party retail demand study conducted by Robert Charles Lesser & Co., the debt service coverage ratio doubles, from 1.25 to 2.54. See Exhibit D to the Section 108 Loan Guarantee Application for TIF revenue projections.

Furthermore, the District has mitigated the risk of high vacancy, which would most likely occur in the situation in which the Complex’s primary retail anchor is unable to continue operations. To this end, the LDA requires that the Developer use the property as a Target store or other “big box” retail use, unless such use is deemed commercially unreasonable. This requirement also applies to any successor of the Developer.

Additionally, the District believes Target is a strong anchor. According to the Target Corporation’s annual 10-K filing to the United States Securities and Exchange Commission^{4[1]}, the company’s financial condition “remains strong.” Credit ratings on long-term debt issued by Target are A2 from Moody’s, A+ for Standard and Poor’s, and A from Fitch. In 2002, its interest coverage was 5.1x and debt ratio was 52%. Liquidity is provided by \$1.9 billion of committed lines of credit through a group of 30 banks. Target Corporation’s total assets are \$28.6 billion as of February 1, 2003, up from \$24.2 billion in 2002.

Target’s net earning were \$1.65 billion in 2002, compared with \$1.37 billion in 2001 and \$1.26 billion in 2000. In 2002, Target’s aggregate revenues were \$43.9 billion. In 2002, total revenue increased 10.3 percent and comparable-store sales increased 1.1 percent. In 2001, total revenues increased 9.7 percent and comparable-store sales increased 2.7 percent over 2000. Target Corporation continues to open Target stores across the country, adding net square footage growth at a rate of 8-10% per year, steadily increasing market penetration. Since 1997, total store density has increased over 50%. In 2003, Target Corporation expects to open 80 new stores.

Debt Reserve Fund

Although the District is confident in the strength of its repayment source, the TIF revenues, there are other safety valves in the event revenues to service the debt fall short. The first option would be to use the debt service reserve fund of \$4.32 million that could service 9.5 months of debt service obligations. If debt service reserve fund is fully utilized, then some CDBG dollars would be used to repay the loan.

Protecting Community Development Funding

In the unlikely event that CDBG dollars must be used to repay amounts due under the Section 108 Loan Guarantee, the District remains committed to providing affordable housing and community development opportunities throughout the District. If in a given fiscal year, some CDBG dollars are used to repay Section 108 Loan Guarantee obligations, the District will pay back that money in subsequent years – to the extent that TIF revenues are sufficient. Instead of replenishing the CDBG allocation (administratively difficult), the District is proposing that the amount of any CDBG funds used to satisfy the Section 108 Loan Guarantee debt service in any given year shall be paid into the District Housing Production Trust Fund Program from future excess TIF revenues.

It is important to note that the risk to CDBG funds in any given year is not the entire \$56 million. Instead, the risk is in any given year is the \$5.3 million in annual debt payments. Furthermore, this amount would only be called upon in the complete absence of any retail in the Complex and in fact, the demolition of the entire Complex (since the Complex would still be generating property taxes even if it were one hundred percent vacant.) If this entire amount (\$5.3 million) were used, this amount would represent about 29% of the available CDBG program funds. Approximately 20% of the District's CDBG funds pay for administrative overhead and the remaining 80% are available for program funds.

In conclusion, the District feels confident that the completion of DC USA will generate more than sufficient tax revenue to repay the Section 108 Loan Guarantee loan, based on the significant demand for new retail in the Columbia Heights neighborhood.

Benefits

DHCD and DMPED believe that the benefits of this Project outweigh the risks. The benefits include (i) more than 1650 permanent jobs and 700 temporary construction jobs, (ii) more than \$100 million in wages to primarily low- and moderate-income employees, (iii) access to, retail goods and services that benefit the primarily low- and moderate-income residents of the Columbia Heights community, (iv) better security in a new and robust commercial area, and (v) an attractive *public realm*, including community space.

6. Citizen Participation Plan

DHCD and DMPED are encouraging maximum citizen participation throughout the Action Plan Modification process. DHCD and DMPED staff members (about 10 people) meet once a week to direct ongoing efforts and to manage the logistics of an ambitious citizen participation schedule. DHCD and DMPED staff will facilitate a minimum of two public hearings before submitting the Section 108 Loan Guarantee application to HUD. Also, DHCD and DMPED will execute one briefing and Q&A session in each of the District's eight Wards.

DHCD will mail out copies of the Notice of the Proposed Modification for a substantial amendment to the Action Plan, and a Project Summary of the Project and proposed financing to more than 1500 individuals and organizations at least 30 days before the first

public hearing. The first hearing will be held Saturday, January 10, 2004 at the historic True Reformer Building, located in Ward 1. A second hearing will be held at Matthews Memorial Baptist Church in the Southeast quadrant of the District. Copies of the Proposed Section 108 Loan Guarantee Application and related Exhibits will be available at area libraries, the Advisory Neighborhood Commissions, and at local community development corporations and community-based organizations.

Notice of the Proposed Modification, including a description of the nature and the actual language of the amendment, will be published in various citywide media sources, including, but not limited to, the *Washington Post*, the *Afro-American*, *El Tiempo*, *The Blade*, and the *D.C. Register*. A solicitation of public comments, including information on the two public hearings that will be held, will also be included in the notice. A period 30 days will be allowed to receive responses from the public on a proposed Substantial Amendment.

The proposed final Consolidated Plan Substantial Amendment (incorporating any revisions or discussions resulting from the public comment process), along with an Approval Resolution will be transmitted by the Mayor to the Council of the District of Columbia, where they will be referred to the Committee on Economic Development. The Committee will hold a public hearing on the Proposed Modification. The Committee will hold a public hearing and vote on the Proposed Modification, prior to consideration by the Council. Once the Council enacts the Approval Resolution, the amendment to the Consolidated Plan becomes officially adopted.

The Proposed Modification conforms to all requirements set forth in DHCD's "Citizen Participation Plan for The District of Columbia Consolidated Plan for HUD Federal Entitlement Grants, Plan Amendments and Performance Reports" ("CPP").

8. Congruence with Action Plan, National Objectives and Eligibility Standards

As noted above, the District signaled its intent to use the Section 108 Loan Guarantee Program for large economic development projects in the Fiscal Year 2004 Action Plan.

The proposed use of Section 108 loan assistance by the District will comply with the national objectives of the Community Development Block Grant program [24 CFR 570.200(a)(2)]. This determination of compliance has been reached by application of the criteria in 24 CFR 570.208(a)(4) where the Project will generate some permanent 1,650 jobs and more than 51% of those will be available to low and moderate-income persons. Applying 24 CFR 570.208(a)(4)(iv)(B), the District is permitted to assume that the jobs to be created will be available to low- and moderate-income persons because the assisted businesses are located "in a Federally-designated Empowerment Zone or Enterprise Community." Provisions of the Taxpayer Relief Act of 1997 established the District of Columbia "Enterprise Zone", which is the special designation within the District of Columbia equivalent to an Empowerment Zone/Enterprise Community.

The Project will be located in Census Tracts 28.01, 28.02, 29, and 30, and will involve portions of Census Tracts of 36 and 37. The complex and parking facility will be located in Census Tract 28.02. The neighborhood economic development fund will affect Census Tracts 28.01, 28.02, 29, 30 and portions of Census Tracts 36 and 37. The neighborhood economic development fund will finance both public space improvements and assistance to businesses located in these Census Tracts, within the context of the Office of Planning's Columbia Heights Public Realm Framework.

The Parking Facility portion of the Project is an Eligible Activity under 24 CFR 507.203(b) which includes the "provision of assistance to a private for-profit business, including, but not limited to, grants, loans, loan guarantees, interest supplements, technical assistance, and other forms of support, for any activity where the assistance is appropriate to carry out an economic development project, excluding those described as ineligible in §570.207(a). The Façade and Retail Upgrade Fund and the other construction costs for the Complex are Eligible Activities under 24 CFR 507.203(b) which includes the "provision of assistance to a private for-profit business, including, but not limited to, grants, loans, loan guarantees, interest supplements, technical assistance, and other forms of support, for any activity where the assistance is appropriate to carry out an economic development project, excluding those described as ineligible in §570.207(a)." Finally, public space and infrastructure improvements, funded by the Neighborhood Economic Development Fund, are eligible under 24 CFR 507.201(c) which includes the "Public facilities and improvements. Acquisition, construction, reconstruction, rehabilitation or installation of public facilities and improvements, except as provided in 570.207(a), carried out by the recipient or other public or private nonprofit entities."

The Project is eligible for waiver of the public benefit test as defined in 24 CFR 570.209 (b)(1)(i). Per 24 CFR 570.209(b)(2)(v), "Any activity subject to these guidelines which meets one or more of the following criteria may, at the grantee's option, be excluded from the aggregate standards described in paragraph (b)(1) of this section:

- F. Provides assistance to business(es) that operate(s) within a census tract (or block numbering area) that has at least 20 percent of its residents who are in poverty;
- G. Stabilizes or revitalizes a neighborhood that has at least 70 percent of its residents who are low- and moderate-income;"

The Project will meet both criteria F. and G. With respect to F., the Project provides assistance to businesses located in Census Tracts 28.01, 28.02, 29, and 30, and may involve portions of Census Tracts of 36 and 37. Approximately ninety percent (90%) of the Section 108 Loan Guarantee proceeds will be spent in Census Tract 28.02. Census Tract 28.02 has a poverty rate of 33%³. The remaining Section 108 Loan Guarantee

³ % Poverty – All Individuals, 2000 Census, census.gov, 11/20/2003.

Proceeds – allocated to the neighborhood economic development fund – will be disbursed in census tracts 28.01 (29.8% poverty), 28.02 (33%), 29 (19.6%), 30 (37.7%), 36 (27.9%) and 37 (34.1%). In sum, the Project will assist businesses that are located in census tracts with greater than 20% rates of poverty.

With respect to G., the Project revitalizes a neighborhood in which at least 70% of its residents are low- and moderate-income (LMI). The Project revitalizes is Columbia Heights. Columbia Heights is defined by the Office of Planning as bounded by Spring Road to the north, 11th Street to the East, Euclid Street to the south, and 16th Street to the west. The Census Tracts that describe this geographic area are 28.01, 28.02, and 30, and significant portions of Census Tracts of 29, 36 and 37. The portion of LMI residents who

Low- and Moderate-Income Resident Concentration in Columbia Heights⁴	
Tract	% of Population that is Low- and Moderate- Income
28.01	81%
28.02	81.6%
29	68%
30	78.5%
36	77.6%
37	80.3%
Average	78%

The Project stabilizes or revitalizes the Columbia Heights neighborhood through job creation, increased retail services and other amenities, enhanced neighborhood infrastructure, stronger neighborhood businesses and safer neighborhood streets. The streets will be safer through a combination of increased foot traffic and a better public environment through better lighting and traffic signalization. The Project also helps to revitalize Columbia Heights through redevelopment of land that has been largely underutilized since the arson and looting of the 1968 riots. Finally, the Project is a cornerstone in the overall redevelopment strategy that the District government and the National Capital Revitalization Corporation are jointly pursuing in Columbia Heights.

Enclosures:

Exhibit A

Exhibit D

Exhibit K

⁴ Low and Moderate Income Data from Census 2000 Low and Moderate Income Summary Data, <http://www.hud.gov/programs/cpd/systems/census/lowmod/index.cfm>, 11/21/2003.

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Exhibit A

<i>Sources of Funds*</i>	Target <u>Unit</u>	Retail <u>Unit</u>	Parking <u>Unit</u>	<u>Total</u>
<i>Construction Financing/Sources</i>				
Equity	\$0	\$15,493,899	\$0	\$15,493,899
DC Land Subsidy	\$0	\$1,927,375	\$3,072,625	\$5,000,000
Sec. 108 Financing	\$1,256,850	\$0	\$42,235,129	\$43,491,979
Debt	<u>\$31,660,125</u>	<u>\$50,088,914</u>	\$0	\$81,749,039
Total	\$32,916,975	\$67,510,188	\$45,307,754	\$145,734,917
<i>Permanent Financing/Sources</i>				
<u>Equity</u>				
Developer Equity				\$15,493,899
Target Equity Contribution				<u>\$28,660,125</u>
Total				\$44,154,024
<u>DC Land Subsidy</u>				
				\$5,000,000
<u>Debt</u>				
Sec. 108 Financing				\$43,491,979
Conventional Financing				<u>\$53,088,914</u>
Sub-total				\$96,580,893
Total Development Cost: Complex & Parking Facility				
				\$145,734,917
*These are developer projections adjusted by the District to reflect expected deal economics.				

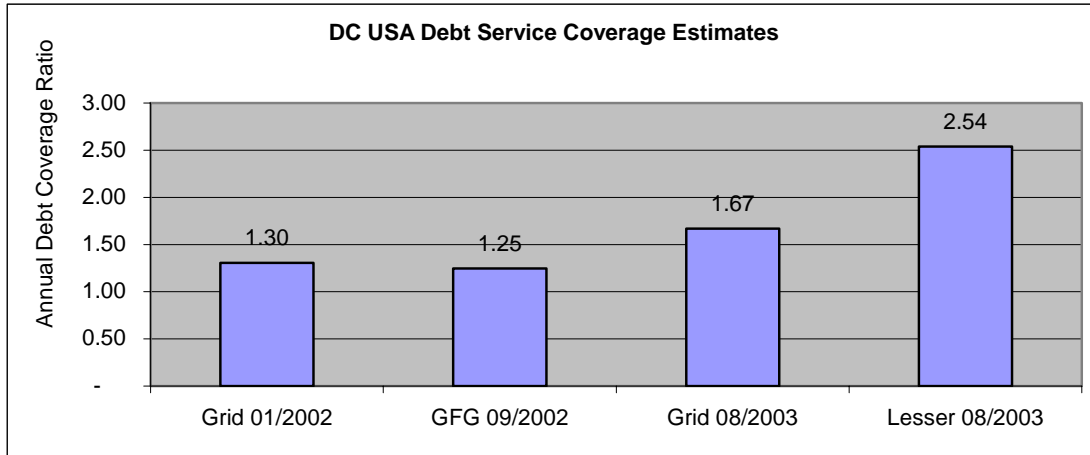
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Project Cost Analysis*	Target Unit	Retail Unit	Parking Unit	Total
<i>Land Costs</i>				
Site Acquisition	\$0	\$2,312,850	\$3,687,150	\$6,000,000
Utility Relocation	<u>0</u>	<u>289,106</u>	<u>460,894</u>	<u>750,000</u>
Sub-total	0	2,601,956	4,148,044	6,750,000
<i>Construction Costs</i>				
Core & Shell	19,800,000	33,640,450	31,200,000	84,640,450
Fit-Out	0	13,500,000	0	13,500,000
F F & E	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub-total	19,800,000	47,140,450	31,200,000	98,140,450
<i>Soft Costs</i>				
Architect and Engineer	857,934	1,177,416	936,000	2,971,350
Construction Management	297,000	504,607	468,000	1,269,607
Project Management/Staffing	400,000	308,380	491,620	1,200,000
Community Relations	63,607	129,671	206,722	400,000
Developer Representative	0	115,642	184,358	300,000
Legal & Accounting	150,000	231,285	368,715	750,000
Land Disposition Reviews/Approvals	100,000	115,642	184,358	400,000
NCRC Closing Costs	23,853	48,627	77,521	150,000
Environmental Testing/Remediation ¹	0	0	0	0
Surveys & Borings	19,877	40,522	64,601	125,000
Building Dept. Filing	15,902	32,418	51,681	100,000
Permits & Fees	63,607	129,671	206,722	400,000
Testing & Inspection	63,607	129,671	206,722	400,000
R.E. Taxes	63,431	129,312	15,000	207,743
Transfer / Recording Taxes	0	69,385	110,615	180,000
Builder's Risk Insurance	39,600	67,281	62,400	169,281
Marketing/Advertising	0	200,000	0	200,000
Condo. Transfer Fee	429,902	0	0	429,902
Leasing Commissions	<u>600,000</u>	<u>4,052,638</u>	<u>0</u>	<u>4,652,638</u>
Sub-total	3,188,318	7,482,169	3,635,033	14,305,520
<i>Financing Costs</i>				
Interest	1,052,416	2,284,357	919,703	4,256,476
Financing Fees	762,979	1,188,984	833,091	2,785,054
Title Search & Insurance	21,396	43,882	29,450	94,728
Appraisal	<u>8,470</u>	<u>17,371</u>	<u>11,658</u>	<u>37,500</u>
Sub-total	1,845,262	3,534,594	1,793,902	7,173,758
<i>Developer's Overhead</i>	3,291,698	0	0	3,291,698
<i>Developer's Profit</i>	3,291,698	0	0	3,291,698
<i>Developer's Fee</i>	0	3,375,509	2,265,388	5,640,897
<i>Project Contingency</i>	<u>1,500,000</u>	<u>3,375,509</u>	<u>2,265,388</u>	<u>7,140,897</u>
Total Costs	\$32,916,975	\$67,510,188	\$45,307,754	\$145,734,917
Total Costs / GSF	\$179.38	\$190.65	\$87.13	\$137.80
Less 108 Allocation	\$1,256,850			
Net Costs to Target	\$31,660,125			
Net Costs to Target/GSF	\$156.19			
Less "Target" Financing Costs²	\$1,760,125			
Cost Before Financing Costs	\$29,900,000			

¹ By the District

² Consists of \$967,279 in interest (@4.5%) and \$792,845 in financing costs.

**These are developer projections adjusted by the District to reflect expected deal economics.*



	Grid 01/2002 ¹	GFG 09/2002 ²	Grid 08/2003 ³	Lesser 08/2003 ⁴
Total Usable TIF	\$ 6,861,512	\$ 6,560,955	\$ 8,772,883	\$ 13,361,493
108 D/S	\$5,262,437	\$5,262,437	\$5,262,437	\$5,262,437
Debt Service Coverage	1.30	1.25	1.67	2.54

Notes

1. Based on Grid (the Developer) sales projections and internal analysis. Assumes 6% vacancy on all non-Target space (e.g. Whole Foods Market, Applebee's, Office Depot).
2. Projected by Government Finance Group, based on Grid's initial sales assumptions.
3. Based on updated Grid sales projections and internal analysis. Assumes 6% vacancy on all non-Target space (e.g. Whole Foods Market, Applebee's, Office Depot).
4. Based on an independent consultant's retail market demand study of expected sales. The consultant is Robert Charles Lesser & Co (RCLCo). Internal analysis used RCLCo's sales projections and assumed a 6% vacancy rate on non-Target space.

All analysis assumes only 25% of real property taxes are available, and only 90% of restaurant taxes are available.

Exhibit D

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	Grid 1/4/2002	GFG 9/3/2002	Grid 08/03	Lesser 08/03	NOTES
Real estate					
Taxable assessment	101,817,840	\$ 83,742,355	\$ 83,742,355	\$ 83,742,355	8/03 taxable assessments based on 1/4/02 application
R.E. Tax rate	1.85%	1.85%	1.85%	1.85%	
R.E. Taxes	1,883,630	\$ 1,549,234	\$ 1,549,234	\$ 1,549,234	
Usable	\$ 470,908	\$ 387,308	\$ 387,308	\$ 387,308	25% of property taxes usable
Retail Sales					
Retail - non restaurant					
SF	349,500	416,832	473,080	473,080	
Ave sales / sf	\$ 250	\$ 225	\$ 290	\$ 459	
Total Sales	\$ 87,375,000	\$ 86,287,000	\$ 136,978,525	\$ 217,054,550	GFG - 50,000 square feet of existing retail are assumed
Vacancy on Non-Target space	6%	na	6%	6%	
Adjusted sales	\$ 84,532,500	na	\$ 131,539,457	\$ 208,435,868	after taking vacancy on shop space
Sales Tax Rate	5.75%	5.75%	5.75%	5.75%	
Adjusted Sales Taxes	\$ 4,860,619	\$ 4,961,514	\$ 7,563,519	\$ 11,985,062	
Usable	\$ 4,860,619	\$ 4,961,514	\$ 7,563,519	\$ 11,985,062	100% of retail sales taxes usable
Restaurant Sales					
SF	50,000	50,000	15,590	15,590	
Ave sales / sf	\$ 200	\$ 225	\$ 498	\$ 625	
Total Sales	\$ 10,000,000	\$ 11,250,000	\$ 7,769,220	\$ 9,744,000	
Vacancy on Non-Target space	6%	na	6%	6%	
Adjusted sales	\$ 9,400,000	na	\$ 7,303,067	\$ 9,159,360	after taking vacancy on shop space
Sales Tax Rate	10%	10%	10%	10%	
Adjusted Sales Taxes	\$ 940,000	\$ 1,125,000	\$ 730,307	\$ 915,936	
Usable	\$ 846,000	\$ 1,012,500	\$ 657,276	\$ 824,342	90% of restaurant sales taxes usable
Theater Tickets					
Total Sales (@ \$6.50/patron)	\$ 4,875,000				
Sales Taxes	5.75%				
Sales Taxes	\$ 280,313				
Usable	\$ 280,313				
Theater Concessions					
Total Sales (@ \$2.50/patron)	\$ 1,875,000				
Sales Tax Rate	5.75%				
Sales Taxes	\$ 107,813				
Usable	\$ 107,813				
Bowling					
Total Sales (@ \$40/sf)	\$ 1,600,000				
Sales Tax Rate	5.75%				
Sales Taxes	\$ 92,000				
Usable	\$ 92,000				
Parking					
Total Sales	\$ 1,698,840	\$ 1,663,605	\$ 1,373,166	\$ 1,373,166	8/03 parking total sales based on latest estimate
Sales Tax Rate	12%	12%	12%	12%	
Sales Taxes	\$ 203,861	\$ 199,633	\$ 164,780	\$ 164,780	
Usable	\$ 203,861	\$ 199,633	\$ 164,780	\$ 164,780	100% of parking taxes usable
Total SF		466,832	488,670	488,670	
Total Usable TIF	\$ 6,861,512	\$ 6,560,955	\$ 8,772,883	\$ 13,361,493	
108 D/S	\$5,262,437	\$ 5,262,437	\$ 5,262,437	\$ 5,262,437	
Debt Service Coverage	1.30	1.25	1.67	2.54	
Target sf	160000				

Exhibit D

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Total Project Development Costs*

Complex Costs	
Target	\$ 32,916,975
Retail	\$ 67,510,188
Total Complex	\$ 100,427,163
Parking Facility Costs	
108 Loan Guarantee	\$ 42,235,129
Land Subsidy	\$ 3,072,625
Total Parking Facility	\$ 45,307,754
Neighborhood Economic Development Costs	
Infrastructure Improvements	\$ 4,800,000
Façade & Retail Upgrade	\$ 1,200,000
Neighborhood Economic Development Costs	\$ 6,000,000
Section 108 Financing Costs	
Capitalized Interest	\$ 1,410,033
Debt Service Reserve Fund	\$ 4,320,319
Costs of Origination	\$ 565,500
Contingencies	\$ 212,169
Total 108 Financing Costs	\$ 6,508,021
Total Project Cost	
Complex Cost	\$ 100,427,163
Parking Facility Cost	\$ 45,307,754
Neighborhood Economic Development Costs	\$ 6,000,000
Section 108 Financing Costs	\$ 6,508,021
Total Project Cost	\$ 158,242,938

*Internal government projections as of 11/03/2003, based on Developer and Consultant projections. *Subject to negotiation.*

Exhibit K